U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON COMMERCE, TRADE, AND CONSUMER PROTECTION

HEARING ON THE DOMINICAN REPUBLIC – CENTRAL AMERICAN FREE TRADE AGREEMENT (DR–CAFTA)

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Mr. Chairman and Members of the Committee:

I would first like to thank the Committee for allowing me the opportunity to express the many concerns of U.S. domestic manufacturers and other small and medium-sized businesses regarding CAFTA. My name is Kevin L. Kearns, President of the United States Business and Industry Council. We are a national business advocacy organization, established in 1933, that takes a national interest approach to public policy issues. USBIC is not a trade association, representing a single industry. Our members come from many different sectors of the economy.

We represent companies that have made an outsized contribution to America's national security and prosperity. We are a critical part of America's domestic manufacturing base. Our enterprises support the broad middle class, one of America's singular economic and political achievements. Today our companies in particular and the nation's middle class in general are under constant attack from predatory foreign trade practices.

Our companies still make most of their products in the United States, ensuring that our revenues flow to American working families in the form of wages, to American productive facilities and R&D in the form of reinvestment in our businesses, and to our local, state and national communities in the form of the taxes needed to fund vital public services and our country's security.

We are economically and socially critical to our communities. All of us are strong believers in free enterprise. We are job creators. We are productivity drivers. We are technology pioneers. But now, our very existence and ability to create these benefits is being threatened by decades of trade policies that ignore reality and in fact seem designed to close us down.

Although we are promised that CAFTA will open big new foreign markets for U.S.-made goods, the opposite is clearly true. The results of the outsourcing deals that have dominated U.S. trade policy over the last twelve years are in: gargantuan trade deficits, shuttered factories, and formerly middle-class Americans sliding down the job and wage scales. CAFTA is simply the latest in this series of outsourcing deals that are gutting our domestic manufacturing base.

The six other CAFTA signatories are manifestly too small, too poor, and often too indebted to become significant consumer markets for U.S. exports. Their only attraction is to multinational corporations, which see them as low-cost bases for supplying the U.S. market, and as levers to force companies and industries like ours to compete on price rather than on quality and innovation. This is a no-win proposition for domestic manufacturing and for the nation as a whole.

As a result, CAFTA's passage will surely increase net U.S. imports, boost the already dangerously high trade deficit, further weaken the dollar, force the continued fire sale of American assets, and reduce domestic manufacturing output, employment, and technological innovation.

New trade agreements could strengthen domestic manufacturing, but only as part of a thorough overhaul of U.S. trade policy aimed at promoting domestic production and living standards. Absent new approaches for dealing with challenges such as China's many predatory trade practices, the widespread foreign subsidization of manufacturing, and a deeply flawed set of world trade rules, CAFTA's passage will simply further open America's market to imports without producing comparable export opportunities.

Passage of CAFTA will also stand as a major obstacle to effecting urgently needed alternatives to the failed free trade model that is destroying domestic American manufacturing and the wider economy. CAFTA will become a political bridge to even more destructive trade deals that are lined up behind it and that the multinationals and retailers are pushing to complete.

Here are the chief problems with CAFTA:

– There is not a Central American Market for U.S. Exports

Simply put, CAFTA is an outsourcing agreement. The trade agreement involves the countries of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. These six small countries simply cannot serve as net consumers of U.S. exports, and so CAFTA will only lead to a worsening of the current U.S. trade deficit – as have all of the trade agreements of the last 12 years.

As previously reported by USBIC, these six countries have a collective gross domestic product (GDP) of $85 billion. By comparison, New Haven, Connecticut has a GDP of $80 billion. Tampa-St. Petersburg has an $87 billion GDP. The pro-CAFTA lobby acknowledges that "millions live on less than $2 a day."

Moreover, Nicaragua, Honduras, Costa Rica, and the Dominican Republic are already under International Monetary Fund (IMF) austerity agreements as a result of their large foreign debt and deep poverty. For example, the Dominican Republic has $7.6 billion in foreign debt, 2002 inflation topped 43 percent, and the poverty rate is 67 percent. As a result, CAFTA can only lock the United States into a trade relationship with countries that can only be net exporters to America, and that will increase the already dangerously large U.S. trade deficit.

– CAFTA is an Outsourcing Agreement

Pro-CAFTA lobbyists like to portray the Central American countries as a huge market for U.S. exports, even surpassing Brazil and Australia. Instead, CAFTA is largely a market for U.S. "turnaround" exports – products shipped south for assembly and then final sale in the U.S. – particularly textiles and semiconductors. 35 percent of the modest $15 billion in exports to CAFTA countries are "turnaround exports," which increased by $1.36 billion from 1997-2004.

"Turnaround" exports simply represent outsourcing that supplants U.S. production and employment for cheap overseas labor, and drives down U.S. living standards. Due to Central American turnaround trade, the U.S. trade deficit with the CAFTA-6 rose nearly 60 percent from 1997-2004, and was $2.4 billion in 2004.

– CAFTA Is Poorly Negotiated and Allows Chinese Textile Transshipments

Already, 75 percent of Central American exports to the United States are duty-free, including 99.9 percent of food and agricultural products. As of 2001, 70 percent of U.S. industrial exports had zero-duty access to the Central American market. CAFTA will only increase that percentage to 80 percent.

CAFTA claims to benefit U.S.-based fabric manufacturers by requiring the use of American-made fabrics in foreign garment production. This is called "yarn forward." However, CAFTA includes a number of loopholes to undermine this. One, the Yarn Forward provisions of the agreement cover only the "essential fabric" in a garment, and leave out much non-visible material. Two, due to "single transformation" exceptions, components of such products as bras and sleepwear, for example, can be imported duty-free into the United States in unlimited quantities even when made entirely outside the CAFTA region, in China for example.

Another problem is the "cumulation" provisions of CAFTA, which allow duty-free entry into the United States of any apparel or related products made entirely of fabric components from any country party to a free trade agreement with any CAFTA signatory. Thus, non-American denim, wool, cotton, and man-made fibers produced in Mexico can be sent to CAFTA countries for assembly into garments that can then be shipped duty free into the United States. This provision simply rewards textile firms that have already moved from the United States to Mexico under NAFTA. But it's also a major loophole to benefit China.

Why is that so? Because Mexico has long been a hotspot for illegal textile transshipments from China. According to the Mexican Textile Chamber of Commerce, 58% of all clothing sold in Mexico is smuggled in from China. It seems that China, which is not a party to this negotiation and has given up nothing in return, stands to gain substantially from CAFTA.

Even the totally inadequate limits on non-CAFTA materials and products eligible for duty-free treatment can only be maintained with satisfactory customs enforcement throughout the CAFTA regions and throughout the economies of any free trade partners. No serious observer of the trade scene considers U.S. Customs enforcement to be remotely adequate, and no significant budget resources for this mission are anywhere in sight. Much worse, of course, is the customs situation in our prospective CAFTA partners and other free trade partners like Mexico. And significant improvement in these countries' customs systems is a prospect even more remote than in the United States.

Additionally, we also must not ignore the determination of China and other Asian textiles and apparel producers to maintain and increase market share through whatever means necessary. The Chinese government has put into effect a wide range of industrial subsidies aimed at maintaining and increasing exports – especially to its leading market, the United States. However, the United States has so far displayed absolutely no willingness to respond to the Chinese and the Asian subsidies.

– CAFTA Sets a Precedent to Eliminate All "Buy American" Provisions and Open US Government Procurement to Foreign Countries

Perhaps the most disturbing loophole in the CAFTA agreement is one that most people have never even heard. According to the U.S. Trade Representative's official summary of the agreement, chapter nine of CAFTA establishes a basic rule of "national treatment" in government procurement. This means that each nation must treat goods, services, and suppliers from the other CAFTA parties in a manner that is "no less favorable" than domestic firms when awarding government contracts. In simple terms, that means governments cannot treat their own citizens better than foreigners, or use "buy domestic" policies to support their own economies. And so, at a time when the U.S. is rapidly outsourcing both its service and manufacturing jobs, CAFTA will make it illegal for any state or federal agency to adopt a "Buy American" policy.

– CAFTA Will Exacerbate the Devastating Impact of NAFTA and CBI

From 1997-2002, U.S. domestic manufacturers' share of the U.S. market fell from 77.4% to 72.5%, despite an 18 percent gain in productivity. During that same period, U.S. exports fell by $9.6 billion and the U.S. lost 2.3 million manufacturing jobs. Moreover, CAFTA will continue momentum for further bad trade agreements that risk crashing the dollar and igniting a global financial crisis that will take years to work through.

In conclusion, USBIC's members can assure you that without dramatic policy changes, many more domestic manufacturers will soon be forced to close down. That means these companies will no longer be engines of economic growth or pillars of community stability. Our employees will go from taxpayers to consumers of government revenues – in unemployment insurance, retraining, food stamps, Medicaid, and other forms of government assistance. Pressures to enlarge the welfare state, with the concomitant redistribution of our society's wealth, will grow significantly stronger

To remain a true global economic and military superpower, and a prosperous, stable society, the United States urgently needs entirely new trade policies that support domestic manufacturing and its resultant stable communities. Defeating CAFTA is the place to start.